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**Performance Related Pay: What Makes a
Successful Scheme?**

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PERFORMANCE RELATED PAY: WHAT MAKES A SUCCESSFUL SCHEME?

INTRODUCTION

The complexities surrounding the issue of reward management can be seen as indicative of the contradictions that exist within the discipline labelled human resource management (HRM). For example, Storey's (1992: 27) distinction between 'hard' and 'soft' HRM identifies the need for 'strategic interventions designed to elicit commitment and to develop resourceful humans' ('soft' HRM) and 'strategic interventions designed to achieve full utilisation of labour resources' ('hard' HRM). The current state of knowledge on reward systems suggests that these are often designed to attempt both strategic interventions together; how successful they are on either count is perhaps less well documented. This tension within HRM has been noted by several writers and the processes currently used to reward individuals have been well scrutinised (Smith, 1992; Legge, 1995; Kessler, 1995). In the final analysis, it appears that many of the reward initiatives pursued represent no more than a 'shuffling of the pack' (Kessler, 1995:274), rather than any innovative, integrated strategy which could be considered part of a distinctive HRM approach.

This paper considers one aspect of the current debate on reward systems by examining the operation of a PRP scheme in a multi-divisional company in Ireland. Before considering the findings of the research, the paper first of all considers some of the evidence available on the operation of PRP systems and describes the background to the study and the methodology used in the research.

PRP: THE LITERATURE EVIDENCE

The traditional personnel textbooks are noted for their prescriptive approach to most matters with issues neatly labelled and packaged for consumption by students and practitioners of personnel or even human resource management. PRP is no exception to this rule with the advantages and disadvantages of such schemes neatly displayed, guidelines for their introduction and operation clearly laid out and solutions to envisaged problems helpfully provided (Armstrong, 1991; Armstrong and Murlis, 1994). More recent textbooks and the evidence provided by empirical research (Mabey and Salaman, 1995; Geary 1992) tend to present a less optimistic picture of the viability of the off-the shelf schemes promoted by the textbooks and suggest that successful performance management schemes, of which PRP may be one dimension, may need to be organization specific. However, both the textbook writers and the empirical researchers are agreed that a large number of issues surround the operation of PRP schemes.

PRP as a Motivator

The primary argument in favour of PRP is that it acts as a motivator, through both providing incentives in the form of monetary rewards and by recognising achievements. Further benefits cited include the fact that individuals can identify closely with their employers' goals and that this can increase productivity and encourage quality, flexibility and teamwork (Armstrong and Murlis, 1991; Wright, 1991). In addition, PRP can contribute to the successful recruitment and retention of staff. However, many researchers (Dwyer, 1994; Kessler, 1992; Marsden and Richardson, 1992) have questioned the extent to which PRP actually acts as a motivator, or, indeed, the extent to which money itself can motivate: 'Most managers are aware of Herzberg's view that the job itself is the source of true motivation, not the pay or even the conditions of work' (Dwyer, 1994: 17). A study by Kovach (1987) reported a mismatch between managerial and employee views concerning what motivates. While managers attributed high financial needs to employees, staff cited pay as fifth on a list of ten factors, while the first four were concerned with intrinsic motivators.

Reasons for the Introduction of PRP

There are a variety of reasons for the introduction of PRP schemes. Several writers (Kessler, 1992; Armstrong and Murlis, 1994; Procter et al., 1993) note that a pay system can be used as a vehicle for organizational change. However, PRP may

simply be one of a number of initiatives designed to achieve cultural change. Procter et al. (1993:73) suggest that 'the necessary culture may already have to be in place for a system of PRP to work effectively', as PRP alone may be incapable of becoming the primary driving force of cultural change. PRP may also serve the purpose of providing a statement to employees regarding what Kessler and Purcell (1992:21) describe as the 'kind of company we are' and may reinforce existing organizational values and expectations. The strategy of culture change may also encompass broader objectives which aim to change the relationship between management and employees. Thus, it has been suggested (Ribbens, 1988; Kessler and Purcell, 1992; Procter et al., 1993) that the individualistic nature of PRP can be used to side-step the collective bargaining process, thereby reducing the influence of the trade union in an effort to re-establish managerial control.

The Success of PRP Schemes

The objectives in introducing PRP can have a significant impact on the success, or otherwise, of the scheme and Crowe (1992:124) suggest that 'each scheme will need to be assessed in the light of each organization's objectives.' Furthermore, the manner in which a scheme is formulated and implemented, and the extent of employee participation in this process, will also have an impact on the scheme's success. Case study research (Lawler and Hackman, 1969; Schefflen et al., 1971) suggests that plans will be more conducive to both acceptance and success if employees are involved in their formulation.

The success of a PRP scheme does not lie solely with employee involvement in the initial stages, or indeed even with a particular set of procedures designed to administer such schemes. According to Beer et al. (1984:124), 'the motivational and satisfactoriness value of a reward system is a function of the perceived equity of the reward system'. Without the presence of this perceived fairness, trust in the system is likely to be low and there is the distinct risk that the contingent link between performance and pay will not be accepted. For example, it has been noted that managers are often unhappy with their wage system because they do not perceive the relationship between how hard they work (productivity) and how much they earn (Hammer, 1975:17). The issues of fairness is even more critical in flatter organizations where opportunities for promotion may be limited.

Several antidotes for this problem of 'perceived unfairness' have been suggested. These include the extent to which employees have the opportunity to participate in pay design decisions, the quality and timeliness of information provided, the degree to which the rules governing pay allocations are consistently followed, the availability of channels for appeals, and the organization's safeguards against bias and inconsistency (Greenberg, 1986). Hammer (1975:20) points out that the 'more frequent the formal and informal reviews of performance and the more the individual is told about the reasons for an increase, the greater his preference for a merit increase system and the lower his preference for a seniority system.' Frequent reviews, coupled with the opportunity to air grievances through a formal appeals process, may therefore eliminate many of the difficulties associated with employees' perceptions of unfairness.

In addition to the issue of fairness, problems associated with PRP include a tendency toward a short-term focus on quantifiable goals to the neglect of more long-term issues. There may also be measurement difficulties, in terms of both difficulty in measuring the work of professionals and attaining a fair and consistent means of assessing employees which will avoid the risks of subjectivity (Murphy and Cleveland, 1995; Kessler, 1994; Beer et al., 1984). Philpott and Sheppard (1992) identify a lack of communication as the principal failing and a lack of agreement on objectives and standards of performance and insufficient feedback may create further difficulties (Armstrong, 1993; Mabey and Salaman, 1995). Storey and Sisson (1993) argue that PRP would appear to undermine utterly the whole concept of teamwork. From research in multinationals operating in Ireland, Geary (1992) found evidence of the contradictory nature of management's strategy which attempted to develop simultaneously a collective identity focused around teamwork, while discriminating between individual contributions.

In summary, the available research does not suggest that PRP has been particularly successful as a reward strategy and there seem to be many pitfalls associated with its operation. There has been little research carried out in Ireland on this topic and it is therefore difficult to estimate the success or otherwise of PRP schemes in the Irish context. However, from the limited evidence available, it does appear that PRP is an issue for Irish organizations (Gunnigle et al., 1994; Geary, 1992) and that it is used in a considerable number of firms. The findings of the Price Waterhouse Cranfield survey (Filella and Hegewisch, 1994) indicate a take-up of merit or

performance related pay for managerial staff in 51 per cent of organizations, with private sector companies more likely than their public sector counterparts to employ this type of pay system. PRP was less likely to be used for other types of staff with 44 per cent of organizations using it for professional/technical staff, 27 per cent for clerical and 12 per cent for manual employees.

THE RESEARCH

The research utilised a combination of both quantitative and qualitative techniques in the collection of data. The research took place in a multi-divisional company operating in Ireland. The HR Director responsible for introducing and administering the scheme was interviewed and documentation relating to the operation of the scheme was collected. A postal questionnaire was then sent to the 107 managers involved in the scheme and 70 replied, a 65 per cent response rate. Following analysis of the data using the SPSS package, interviews were conducted with a cross-section of managers, with the administrators of schemes in two other firms and with a trade union official in order to explore in more detail issues which had emerged from the questionnaire findings. This paper deals in particular with the views of the managers involved in the scheme.

PRP IN PRACTICE

The Acceptability of PRP

The first issue addressed was the acceptability of the principle of PRP among managerial staff. This was assessed from responses to the statement: 'The principle of relating pay to performance is essentially a good one'. As table 1 shows, a total of 97 per cent of respondents agreed with the statement, suggesting a widespread acceptance of the fundamental concept of PRP. However, when asked if they perceived the system as fair, a slightly different response was observed, with a total of 74 per cent replying in favour, while 25 per cent disagreed.

Table 1: The Concept of PRP

Statement	Strongly Agree %	Agree %	No View %	Disagree %
The principle of relating pay to performance is essentially a good one.	31	66	3	0
PRP is a good idea for managerial staff.	16	72	9	3
The idea of PRP is fundamentally unfair.	4	8	58	30

N = 70

Pay as a Motivator

When respondents were asked for their views on the statement: ‘the most important thing about a job is pay’, 30 per cent agreed while 61 per cent disagreed (see table 2). In contrast, 86 per cent agreed with the statement: ‘the kind of work I like is one that pays top salary for top performance’, indicating the relevance of highly paid work to the respondents, though it may not have featured as the primary motivation for the job. The data also indicated that those who liked the kind of job that pays top salary for top performance also believed that PRP had encouraged them to give sustained high performance at work ($r = .34, p = .005$). Differences in these views could not be explained by age, gender, length of service or trade union membership.

Table 2: Pay as a Motivator

Statement	Strongly Agree %	Agree %	No View %	Disagree %	Strongly Disagree %
The most important thing about a job is pay	3	21	15	49	12
The kind of work I like is the one that pays top salary for top performance	36	51	9	3	1

N = 70

Objectives

Table 2.3 displays the managers' views on the reasons behind the introduction of the scheme.

Table 3: First Ranked Objectives of the Scheme

Objectives	%
Improve performance of the organisation	57
To reward good performance	15
To motivate employees	9
Increase commitment to the organisation	4
Improve recruitment and retention of staff	9
Reinforce existing culture, values, and performance expectations	2
To promote organisational change	2
To remove the bargaining process away from trade unions	2

N = 70

Just over half the managers perceived that major objective in introducing the PRP scheme was to improve the performance of the organisation. Other objectives were given less importance and issues such as the promotion of organisational change and the reduction in trade union influence, although well documented in the literature as objectives of PRP were not perceived as of major importance in this study.

Success of the Scheme

Table 4 uses two statements which are designed to determine the success of the scheme as perceived by the managers: 'PRP has been successful in achieving an overall increase in company performance' and 'PRP has provided the company with a useful tool in increasing productivity'.

Table 4: Success of PRP

Statement 1: PRP has been successful in achieving an overall increase in company performance.

Statement 2: PRP has provided the company with a useful tool in increasing productivity.

	Statement 1	Statement 2
Strongly disagree	2	1
Disagree	19	9
No View	24	23
Agree	49	56
Strongly agree	6	11

N = 70

As table 4 shows, over half the respondents agreed with statement 1, while two thirds agreed with statement 2. However, 24 per cent had no view on statement one and 23 per cent had no view on statement two, giving the impression that a substantial proportion remain unaware of the success or otherwise of PRP.

However, there were a number of measures commented on by the managers which were considered to be directly linked to the introduction of PRP and provided a more useful tool for assessing PRP's success:

I would quantify that success through the ISO 9000 scheme. Our reviews would indicate that management procedures are correct, quality scheme reviews ratings are being improved. Our customers...are now involved in the ISO 9000 and they are rating us and sending our ratings back to the ISO 9000, so customer ratings are improving as well (Manager, 1996).

Sales and marketing are very conscious of the targets being set, the key part of the equation. Definitely improvement everywhere, working capital keeping it at most optimum level, marked improvement (Manager, 1996).

An improvement in overall performance, both individual and company, was stated as one of the priority objectives of the scheme. In support of this, a total of 75 per cent of managers agreed with the statement 'PRP has contributed to a general

improvement in performance'. Although this securely indicates a measure of success, it is difficult to quantify this success, as the statement is rather a general one; it does not specify the context of success, or indeed, how it is measured. The question is whether this improvement in performance was a direct result of the monetary incentive, or whether PRP brings additional benefits which creates the motivational force for improving performance.

PRP's Effect on Performance

The data indicated a correlation between an improvement in performance and improved communication with the individual supervisor. It would appear that PRP provided greater opportunity to interact on a more frequent basis with the supervisor for the purpose of discussing the focus of direction of the targets set. In addition, the statement 'PRP makes me focus on what I'm meant to achieve' also correlated with an improvement in performance, and this consistently emerged as an important feature of the PRP system. For example, one half of the managers in the follow-up interviews mentioned that PRP had helped them to *focus* on certain objectives.

Drawbacks with the Scheme

The managers were asked to rank a range of drawbacks with the PRP scheme according to importance, and these are shown in Table 5. A total of 42 per cent of managers ranked the measurement of performance as the greatest difficulty with the PRP scheme. The second greatest drawback with the scheme involved a short-term focus on objectives, to the neglect of longer-term issues. The third greatest drawback with the scheme involved a lack of reward. The other drawbacks listed received relatively little attention among the managers.

Table 5: First Ranked Drawbacks with the scheme

Statement	%
It is difficult to measure individual performance objectively	42
PRP encourages employees to exercise a narrow focus on short-term quantifiable goals, neglecting long-term issues	21
The amount of pay involved is not enough to substantiate a change in performance	12
It assumes that money is the best reward	9
It is not successful in improving employee motivation	8
PRP negatively affects teamwork, & co-operation can suffer	6
It is principally unfair in discriminating between individual contributions	2

N = 70

Measuring Performance

When responding to the statement 'my work objectives are clear and specific. I know exactly what my job is', 87 per cent of managers considered that their set objectives were 'clear and specific'. Nevertheless, 78 per cent still ranked 'measurement of performance' as one of the top three disadvantages with the system, indicating that clear and specific objectives do not necessarily result in an adequate measure of performance. In both the comments on the questionnaires and in the follow-up interviews, measurement of performance emerged as the primary cause of concern and dissatisfaction with the PRP scheme:

I think that personalities will always play a big role in any individual's assessment and until somebody devises a method to overcome this then I think we will have to live with under-performance and over-performance but I think that it is where a potentially very good system will become unstuck (Manager, 1996).

Many managers expressed concern about the extent to which the maximum reward was achievable. Additional difficulties with the measurement of performance were also evident in the comments which reflected the problems involved in defining and

measuring goals for managerial positions: 'True goals are hard to clarify and harder still to judge' (Manager, 1996).

The task of measuring managerial performance is a difficult one. However, a number of mechanisms have been suggested as means to overcoming this obstacle. The study revealed a heightened awareness of the importance of feedback in the PRP process. However, less than half agreed with the statement 'I receive a considerable amount of feedback concerning my quantity of output on the job'. Although a correlation existed between an improvement in communication with the managers' immediate supervisor and an improvement in performance, only 27 per cent actually felt there was an improvement in communication between themselves and their immediate supervisor. Therefore, it would appear that the extent of feedback available was limited for many.

Short-term Objectives

The literature highlights an over-emphasis on short-term objectives as a common difficulty with PRP schemes, and this difficulty was found in the case company, with an over-emphasis on short-term objectives ranked as second on the list of drawbacks with the current scheme. A total of 51 per cent of managers agreed with the statement that 'there is an over-emphasis on short-term work objectives', while only 33 per cent disagreed:

Short-term goals can result in long-term neglect and the attitude of let next year look after itself starts to creep in (Manager, 1996).

Feedback

Some managers indicated that targets may become irrelevant as a result of circumstances beyond the manager's direct control. As one respondent commented:

It does not take into consideration the unexpected which necessitates an extremely high level of work on targets outside those set which might leave you in a position of not having achieved the set targets while having worked extremely hard (Manager, 1996).

This comment summed up the feeling of many respondents on this issue and appeared to be the cause of genuine frustration among the managers. This may be

linked to the extent of feedback available to managers. Thus, when asked for their opinions on the statement 'I am provided with a great deal of feedback and guidance on the quality of my work', only 30 per cent agreed.

Links Between Performance and Pay

Table 6 shows mixed opinions as to whether or not the production of high quality work would actually result in more pay and whether the PRP scheme genuinely affected work performance. Just under half, 47 per cent, of the respondents agreed that producing high quality work will improve payment, while 40 per cent disagreed with the statement concerning PRP's affect on their work performance.

Table 6: Links Between Performance and Pay

Statement	Strongly Agree	Agree	No View	Disagree	Strongly Disagree
	%	%	%	%	%
Producing high quality work is rewarded with more pay	1	46	20	24	9
PRP has no effect on my work performance	11	32	17	39	1
The most important thing about a job is pay	3	21	15	49	12

N = 70

Teamwork

Among managers, there appeared to be mixed views on the benefits of PRP in relation to teamwork. Just under half (48.5 per cent) agreed that PRP contributed to more effective teamwork, while 31 per cent were in disagreement. Furthermore, 48 per cent of respondents ranked the statement 'PRP negatively affects teamwork, and co-operation can suffer' in the top three disadvantages with the scheme. Comments expressed by the managers did not indicate that PRP had created a positive effect on teamwork: 'Individuals will sacrifice team goals for their own glory' (Manager, 1996) was just one of the comments which reflected the views of many. Others commented on a lack of co-operation as a result of the PRP system, and its failure to achieve a sense of team spirit. However, it may be worth considering that the issue

of teamwork may be affected by the type of motivation provided by PRP, as one manager pointed out:

It helps to motivate certain individuals with competitive instincts. It doesn't motivate people who will do a good job come what may. It can therefore be divisive on a team with two types of personalities (Manager, 1996).

Appeals System

Managers were asked for their views on the following statement: 'Do you think that there is a need for an appeals system?' Two thirds (65 per cent) replied positively while 35 per cent disagreed. The data indicated a correlation between the need for an appeals system and the length of time spent working in the organisation ($r = -.32$, $p = .01$).

Joint Consultation

The importance of joint consultation to the perception of equity of PRP schemes is discussed in length within the literature. According to Williams et al. (1993:144), 'employees are much more likely to respond to clearly defined mutually agreed individual objectives, than they are to grand statements about corporate values, however eloquently they are articulated.' The data indicates that the extent of this difficulty within the organisation in question is relatively limited, with less than 20 per cent agreeing that they have little voice in the formulation of their work objectives and over 82 per cent agreeing that they are allowed a high degree of influence in the determination of work objectives. Table 7 displays positive responses to a number of statements concerning the issue of joint consultation in objective setting.

Table 7: Joint Consultation in Objective Setting

	Strongly Disagree	Disagree	No View	Agree	Strongly Agree
I really have little voice in the formulation of my work objectives	28	46	6	19	1
I am allowed a high degree of influence in the determination of my work objectives.	1	9	8	61	21

$N=70$

Improvement in Performance

Though PRP had disadvantages for some managers, there were others who supported both its principles and operation. Individuals indicating a positive response to the statement 'With PRP my individual efforts and achievements are recognised' seemed to be far clearer about their work objectives and how their work contributed to the organisation. They also appeared to be well-informed about the company's plans and performance, and had few difficulties with PRP. Table 8 shows a matrix correlation which indicates the relationship between these matters.

Table 8: Matrix Correlation of Individual Effort and Achievement

With PRP my individual efforts and achievements are recognised.	Correlation
My work objectives are clear and specific. I know exactly what my job is.	.38 $p = .001$
I can see how my work contributes to the organisation as a whole.	.54 $p = .000$
I have a clear idea about how the organisation is performing overall.	.49 $p = .000$
I am generally told what is going on in the company.	.60 $p = .000$
I've got a clear idea of what this organisation's goals and plans are for the future.	.42 $p = .000$
PRP has yet to overcome some difficulties in this organisation	-.35 $p = .004$

$N = 70$

In an effort to establish the most effective way of improving on performance, a detailed analysis of those who had perceived an improvement in performance was carried out, the results of which are shown in table 9. Three quarters of respondents agreed with the statement 'PRP has contributed to a general improvement in performance.' This proportion of managers appeared to have found increased communication with their supervisors and a more focused direction in their work. They also seemed to have a clear idea of the company's goals for the future of the organisation, and have found PRP to have affected the extent of initiative shown in their work.

Table 9: Improving on Performance

	Correlation
PRP has contributed to a general improvement in my performance.	
Increased communication with boss as a result of PRP	.39 $p = .002$
PRP makes me show more initiative	.51 $p = .000$
PRP makes me focus on what I'm meant to achieve	.35 $p = .003$
I have a clear idea of the company's goals and plans for the future	.42 $p = .003$

$N = 70$

Managers who agreed with the statement 'with PRP my individual achievements are recognised' similarly agreed with the statement 'PRP gives an incentive to work beyond the requirements of the job' ($r = .51, p = .000$), indicating the possibility that recognition gives incentive to increase performance, lending support to the argument that the key to increasing performance may be obtained through, not a monetary incentive, but through the recognition element of an incentive.

Organisational Culture

In the follow-up interviews, it became clear that there were differences between managers working in different subsidiaries in their perceptions and experience of PRP. Certain managers appeared to accept the changes in the reward system wrought by PRP, while in others, its presence was largely resented. The findings indicated that managers in younger companies were more accepting of PRP than managers in older companies:

We have seen a change in the culture of the organisation, slowly from a static, hierarchical structure to active team based structure (Manager, 1996).

A manager in one of the younger subsidiaries summed up the contrasting attitudes to PRP in stating:

It's different in different parts of the group. Others in the group it might have been alien to, in a more commercial organisation it was a normal sort of a thing (Manager, 1996).

Cuming (1993:281) argues that 'it is important to design a reward package which is consistent with the goals and culture of an organisation'. The very nature of PRP schemes sends messages to employees about organisational values and goals. As Brown (1995:137) points out, 'an organisations reward system ...can be thought of as an unequivocal statement of its values, beliefs and assumptions'. Hence, the application of a uniform reward scheme into a range of differing organisations with differing histories and cultures has the potential to overlook the individual nature of subsidiaries within a multi-division organisation. Armstrong and Murlis (1991:41) suggest that although reward policies should be consistent with corporate culture, there is no such thing as a 'right' policy. They further note that 'reward policies have to take into account...the corporate culture and values and the type of organisation in which the policies are being applied'.

DISCUSSION

The research shows that the case company had implemented a PRP scheme which was perceived as contributing to an increase in performance and to increased profits for the organisation. However, in contemplating what exactly constitutes a successful scheme, it seems worthwhile to point out the implications of defining a scheme's success. A lack of substantial literature evidence as a means of monitoring a scheme's success leaves little guidance in finding a point of evaluation. With various factors such as profits, employee satisfaction, increased motivation and competition at stake, it is difficult to assess which criteria contributes to the success of a scheme. Perhaps the achievement of the scheme's original objectives could be offered as a starting point, however, these are often revised during a scheme's operation. Therefore, the dilemma of choosing the most appropriate criteria on which to judge a scheme's success remains.

The main conclusion to be drawn is that PRP generally proves ineffective when imposed as a singular initiative without prior consideration to environmental factors, particularly the organisational culture. In order for a PRP scheme to operate successfully it requires a supporting infrastructure. As Brown (1995:139) has pointed out:

No single programme, policy or system is likely to have much impact on one organisation. For the human resource approach to the management of culture to have any realistic chance of success an integrated package of initiatives will be required.

The long-standing debate of what motivates has by no means been resolved through this study. However, some interesting conclusions can be drawn which reflect what some of the literature has already proposed. With the majority of managers in the survey responding favourably to the concept of PRP and three quarters of respondents agreeing that PRP had inspired increased performance, it would appear that PRP had achieved substantial positive motivational effects. However, this does not necessarily indicate that it was the monetary element which created the incentive. Improved communication with superiors, increased focus on set objectives and a clear picture of how individual work fits into overall company goals were observed as associate characteristics of motivation. Indeed, it could be argued that all three characteristics could be derived from increased communication and by implication, communication is essential for an effective PRP scheme. Essentially, the study indicated that a number of factors may have been responsible for inspiring motivation for increased performance, including the symbolic status of a pay increase signifying recognition of well accomplished work and the increased and more effective channels of communication opened by PRP's introduction.

The study further indicated that pays ability to motivate was more likely to succeed in certain environments. The ethos of paying for performance appeared to be widely accepted in some organisations, whereas in others, it was resented. Although no variables such as length of service, or age of employee were found affecting this viewpoint, it was considered that the organisation itself may have a direct impact on the acceptability of PRP. The company culture particular to individual organisations is considered to be a significant factor in the determination of PRP's success. Emerging from this, a number of considerations become prevalent. First, it is suggested that the flexible adaptability of the reward scheme in the implementation of PRP in various subsidiaries is considered most appropriate. Second, the evidence suggests that it is highly important to take into consideration an organisation's history and culture in designing and implementing a reward package so that the two are consistent with each other.

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